GradeMax

Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE NAME

CENTRE NUMBER | | | | | |

CANDIDATE NUMBER | | | | |

0929027315

ACCOUNTING **9706/22**

Paper 2 Structured Questions **May/June 2019**

1 hour 30 minutes

Candidates answer on the Question Paper.

No Additional Materials are required.

READ THESE INSTRUCTIONS FIRST

Write your centre number, candidate number and name on all the work you hand in.
Write in dark blue or black pen.
You may use an HB pencil for rough working.
Do not use staples, paper clips, glue or correction fluid.
DO **NOT** WRITE IN ANY BARCODES.

Answer **all** questions.
All accounting statements are to be presented in good style.
International accounting terms and formats should be used as appropriate.
Workings must be shown.
You may use a calculator.

At the end of the examination, fasten all your work securely together.
The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **17** printed pages and **3** blank pages.

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1 Lee, a sole trader, provided the following information from his books of account on 30 April 2019.

	$
Bank overdraft	11 240
Capital	50 000
Carriage inwards	670
Drawings	24 060
Inventory at 1 May 2018	12 500
3% Loan	20 000
Loan interest	50
Motor vehicles	
Cost	32 000
Provision for depreciation	8 000
Office equipment	
Cost	4 600
Provision for depreciation	2 400
Other operating costs	61 990
Provision for doubtful debts at 1 May 2018	2 850
Purchases	97 370
Revenue	165 000
Trade receivables	47 890
Trade payables	21 640

The following information is also available.

1 An invoice from a supplier dated 28 April 2019 for goods costing $940 had not been recorded in the books of account. These goods were unsold at the year-end.

2 Inventory was counted at 30 April 2019 and was valued at cost, $21 340.

3 Revenue included goods sold in April 2019 to a credit customer for $3200 on a sale or return basis. These goods were invoiced with a mark-up of 60% and were returned by customer on 5 May 2019.

4 During the year, Lee took goods with a cost of $250 for his own use.

5 The 3% loan was taken out on 1 August 2018 and is repayable in 5 annual instalments starting on 1 August 2019.

6 A debt of $690 was considered to be irrecoverable and was to be written off.

7 The provision for doubtful debts was to be maintained at 5% of the trade receivables.

8 A computer for office use bought on credit on 1 July 2018 costing $1200 had been debited to the purchases account.

9 Depreciation is to be provided as follows:

Motor vehicles	25% per annum using the reducing balance method
Office equipment	10% per annum using the straight-line method

A full year's depreciation is charged in the year of purchase.

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REQUIRED

(a) Prepare Lee's income statement for the year ended 30 April 2019. Use the space on the next page for your workings.

Workings:

[13]

(b) Prepare the following as they would appear in Lee's statement of financial position at 30 April 2019.

(i) Current assets

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(ii) Current liabilities

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(c) State **two** benefits and **two** drawbacks of operating as a sole trader.

Benefit 1 .....

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Benefit 2 .....

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Drawback 1 .....

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Drawback 2 .....

..... [4]

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[Turn over

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Additional information

Lee's friend Marvin has offered to contribute $50 000 to repay Lee's business loan and to provide additional working capital.

Marvin has suggested two options.

Option 1: Form a limited company

Lee would issue 125 000 ordinary shares of $1 each. Marvin would subscribe for 50 000 of these shares. Lee and Marvin will become directors of the company and will be paid an annual salary. They plan to declare dividends of 6% per annum.

Option 2: Form a partnership

Marvin would introduce capital of $50 000 on which he would receive annual interest of 6%. He would require a 30% share of the future profits for the year.

REQUIRED

(d) Advise Lee which option he should choose. Justify your answer.

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[Total: 30]

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2 Sofia has provided the following information relating to her trade receivables at 31 December 2018:

	Analysis of trade receivables		
	0-60 days	61-90 days	Over 90 days
Percentage of total trade receivables	68%	20%	12%

1 At 31 December 2018 total trade receivables were $54 500.

2 Dixie, who had been declared bankrupt, owed $1500. This debt was 110 days old at 31 December 2018 and was to be written off.

3 Sofia's policy is to make a provision for doubtful debts as follows:

5% for debts aged between 61 and 90 days old
7.5% for debts aged over 90 days old.

The balance on the provision for doubtful debts at 1 January 2018 was $1100.

REQUIRED

(a) State the journal entry to write off an irrecoverable debt.

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(b) Calculate the amount of provision for doubtful debts at 31 December 2018.

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(c) Prepare the provision for doubtful debts account for the year ended 31 December 2018. Dates **are** required.

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(d) Explain **one** accounting concept which is applied when making a provision for doubtful debts.

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Additional information

Sofia is considering changing the basis of the provision for doubtful debts to a general provision of 2.5% on all trade receivables.

She has calculated her profit for the year ended 31 December 2018 as $4300 after writing off Dixie's debt but before making any adjustment for the provision for doubtful debts.

REQUIRED

(e) Describe how this change will affect Sofia's profit. Support your answer with relevant calculations.

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[Total: 15]

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3 Financial statements provide information to enable users to evaluate the financial performance of a business.

(a) State **three** reasons why it might be difficult to compare financial ratios between businesses in the same industry.

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[Turn over

X Limited is a wholesaler of sports goods. The directors of the company have provided the following information for the year ended 30 April 2019.

	$
Revenue	742 630
Cost of sales	(459 991)

1 For the year ended 30 April 2019 the rate of inventory turnover was 7.5 times. The value of inventory at 1 May 2018 was $57 682.

2 At 30 April 2019 the trade receivables turnover was 35 days and the trade payables turnover was 32 days.

3 All sales are made on credit. Credit purchases amounted to 80% of the value of cost of sales.

REQUIRED

(b) Calculate at 30 April 2019:

(i) closing inventory

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(ii) trade receivables

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(iii) trade payables.

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Additional information

X Limited has an operating expenses to revenue ratio of 30%. Distribution costs are twice as much as administrative expenses. Finance costs are 5% of the profit for the year.

REQUIRED

(c) Prepare the income statement for X Limited for the year ended 30 April 2019.

[3]

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Additional information

On 1 October 2018 X Limited paid a dividend of $25 000 on the basis of $0.08 per ordinary share of $1 each.

On 1 February 2019 X Limited made a rights issue of 1 ordinary share for every 5 held at a premium of $0.50. This was the first time that X Limited had issued new shares. The rights issue was fully subscribed.

REQUIRED

(d) Calculate the proceeds received by X Limited from the rights issue.

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[Total: 15]

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4 Jessie is a manufacturer and uses a single raw material to make her product. The following table shows inventory transactions for the month of March 2019.

Date		Kilos	Per kilo $
March 1	Opening balance	1500	1.90
3	Receipts	3500	1.92
10	Receipts	2000	1.95
17	Receipts	1500	2.00

Jessie uses the First In First Out (FIFO) method to value her inventory. The following issues to production took place.

Date	Kilos
March 5	3000
23	4500

REQUIRED

(a) Calculate the following in dollars:

(i) the value of issues to production on 5 March

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(ii) the value of issues to production on 23 March

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(iii) the value of closing inventory at 31 March.

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(b) State **two** advantages to a business of using the FIFO method of inventory valuation.

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Additional information

The business has two production cost centres: machining and assembly, and one service cost centre: stores.

The following budgeted information is available for the year ending 31 December 2019.

Budgeted overheads	$	Basis of apportionment
Depreciation	9 760	Non-current asset at cost
Heat and light	13 850	Kilowatt hours
Machinery maintenance	6 500	Machine hours

The following budgeted information is also available.

	Production cost centres		Service cost centre
	Machining	Assembly	Stores
Kilowatt hours	4 200	2 100	700
Non-current assets at cost ($)	91 000	28 000	21 000
Stores requisitions	375	125	
Direct labour hours	2 700	6 300	
Machine hours	13 400	3 350	

REQUIRED

(c) Complete the following table to show the apportionment of budgeted overhead costs for the year ending 31 December 2019.

	Total $	Production cost centres		Service cost centre
		Machining $	Assembly $	Stores $
Depreciation				
Heat and light				
Machinery maintenance				
Total overheads apportioned				
Re-apportionment of stores				
Total overheads cost				

[6]

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(d) Calculate, to **two** decimal places, an overhead absorption rate for **each** production cost centre, using a suitable basis.

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Question 4 (e) is on the next page.

Additional information

On 1 April 2019 a customer asked Jessie to quote for an order of 200 units of her product. Each unit requires the following:

Direct labour	2.5 hours at $4 per hour
Direct material	3 kilos
Overheads	Machining department
	1.5 machine hours
	0.8 direct labour hours
	Assembly department
	1.0 machine hour
	2.0 direct labour hours

Jessie marks up all orders by 25%.

REQUIRED

(e) Prepare a statement to show the total selling price that Jessie will quote to the customer.

..... [7]

Additional information

The same customer offers to pay Jessie the quoted price less a 10% discount. Jessie's factory has spare capacity.

REQUIRED

(f) Advise Jessie whether or not she should accept the offer. Justify your answer.

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[Total: 30]

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